Ex parte presentation to Members of the Federal-State Joint Board on Universal Service

June 7, 2005

Chicago Illinois

Companies participating

- CenturyTel
- Consolidated Communications
- FairPoint Communications
- Iowa Telecommunications
- TDS
- Valor Telecommunications
- Comporium Communications

Summary of key points

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- **Mid-sized carriers provide excellent service to rural areas.**
  - Carrier of Last Resort.
  - Aggressive advanced services deployment.
  - Economic development/community development role.
  - Critical role rehabilitating acquired exchanges.
- **Investment incentives for rural markets require rational, predictable Universal Service policies.**
- **Intercarrier compensation reform is causing enough uncertainty in the industry at the present time.**
- **Universal Service Fund increases are not being driven by support to rural holding companies.**
- **The “rural” definition for universal service should not be modified.**
  - High cost markets are high cost by their very nature - low density, long distances to deploy loops, and often challenging terrain characteristics.
  - Those efficiencies that do exist at the holding company level are captured in cost studies.
  - Do not discourage investment in or acquisition of rural properties.

Summary of key points

- **Support should be based on each company's own costs.**
  - "Portability" of support is inefficient and sends improper market signals.
- **Generally, embedded cost method works well, sends correct signals.**
  - Embedded cost basis has encouraged disciplined investment for most rural carriers, is subject to cost study rules, and can be audited.
  - Could consider FLEC alternative for electing carriers – primarily rural price cap carriers.
  - Specific changes are required (Cap, Rural Growth Factor) as some carriers are receiving support in excess of cost (wireless CETCs) while other carriers are not recovering appropriate share of their investment (RLECs).
- **State and federal ETC certification and review critical.**
  - Effective implementation of new standards.
  - Consider single COLR or other ways to discipline.
- **Rules for transfer of acquired exchanges require modification.**
  - Policy should not discourage sales to rural-focused carriers.
  - Property typically grossly underserved at time of transfer.
  - Policy should encourage comparable levels of service to these rural customers.

Summary of key points

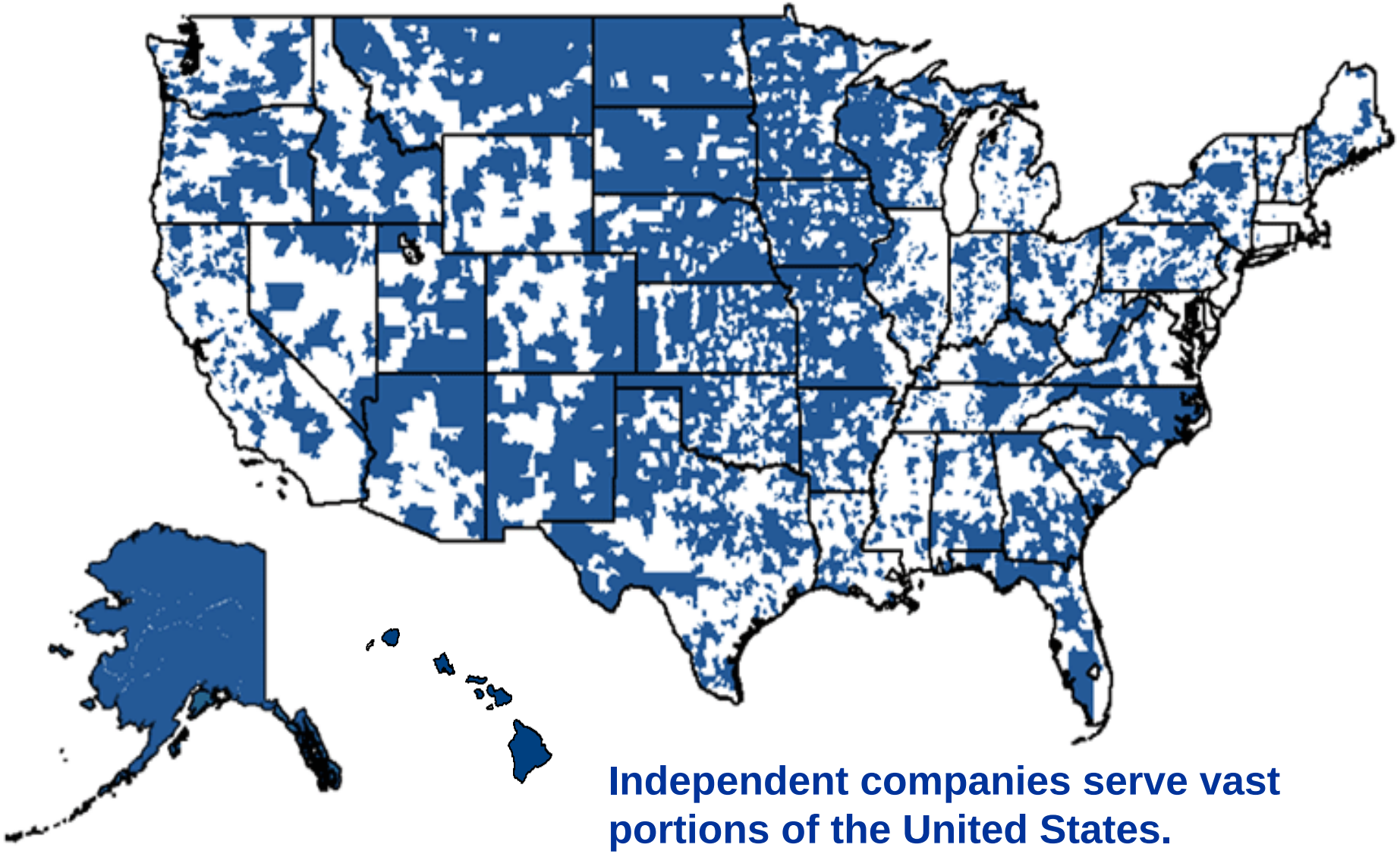
- **Customer needs must be the top priority.**
  - Importance of "true" carrier of last resort provider should not be undermined.
  - Comparability of services between rural and urban areas needs to remain a cornerstone of universal service policy.
  - Economic development in rural communities is dependent on investment and deployment of advanced telecommunications services.
  - “Just, reasonable and affordable rates” is an important benchmark for rural areas.

Key Takeaways

- **Rural holding companies are not creating the problems associated with growth in USF – wireless CETCs are the problem.**
- **Rural holding companies have been experiencing declines in USF support**
- **Study area consolidation creates negative long term implications for rural consumers:**
  - Weakens carriers' ability to serve as COLR.
  - Reduces investment incentives in rural markets.
  - Hinders the deployment of advanced services.
  - Discourages otherwise appropriate acquisitions of rural exchanges whereby the new owner might be positioned to bring additional services to the consumer
  - Puts additional pressure on state policymakers.
  - Exacerbates financial uncertainty associated with intercarrier compensation reform and other policy changes.
- **Embedded costs work best in the majority of situations, but FLEC may make sense for some rural price cap markets and wireless providers.**

Mid-size carriers provide excellent service to rural areas

INDEPENDENT TELEPHONE COMPANY SERVICE TERRITORIES

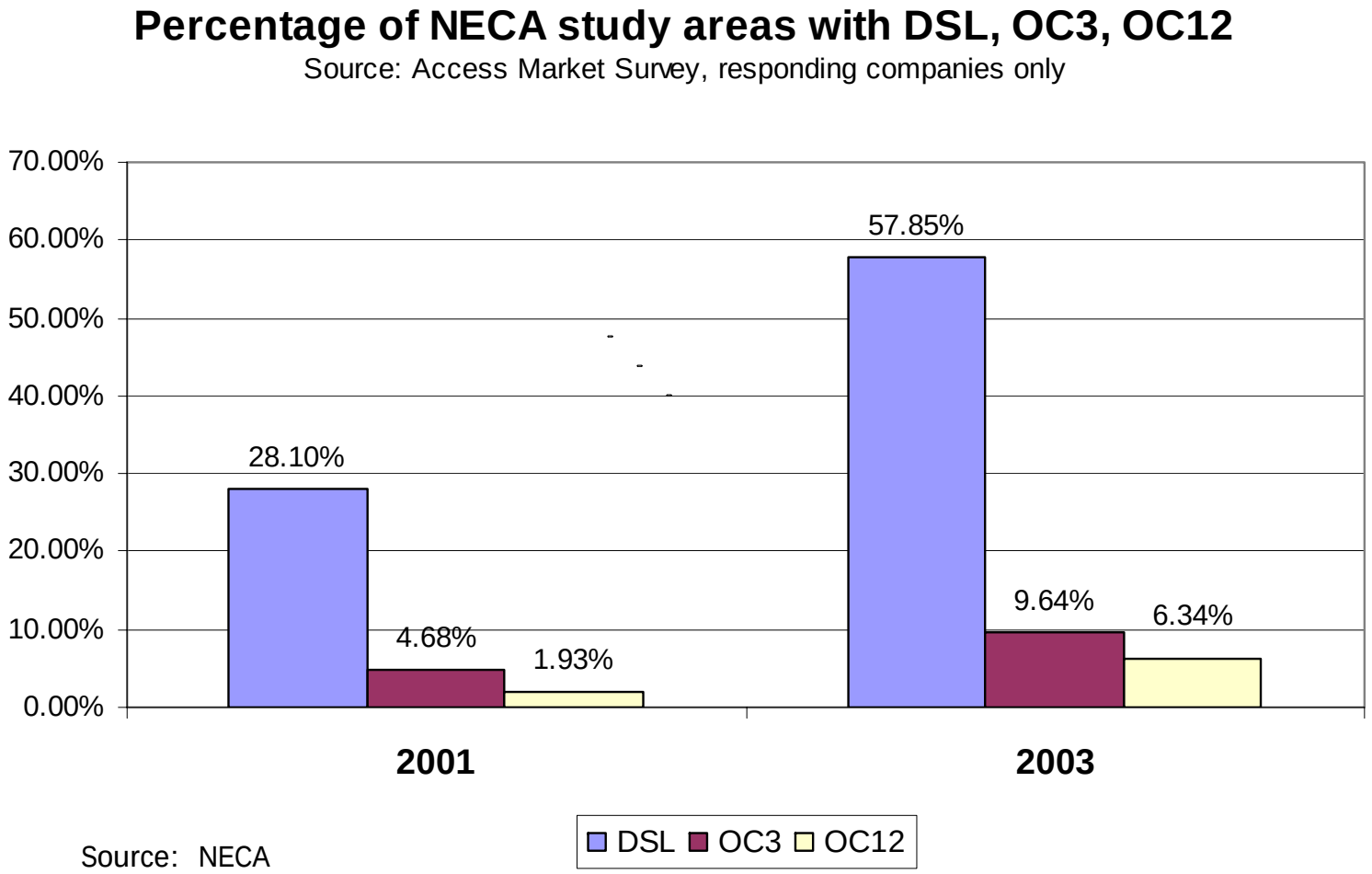


Independent companies serve vast portions of the United States.

Company Operating Characteristics

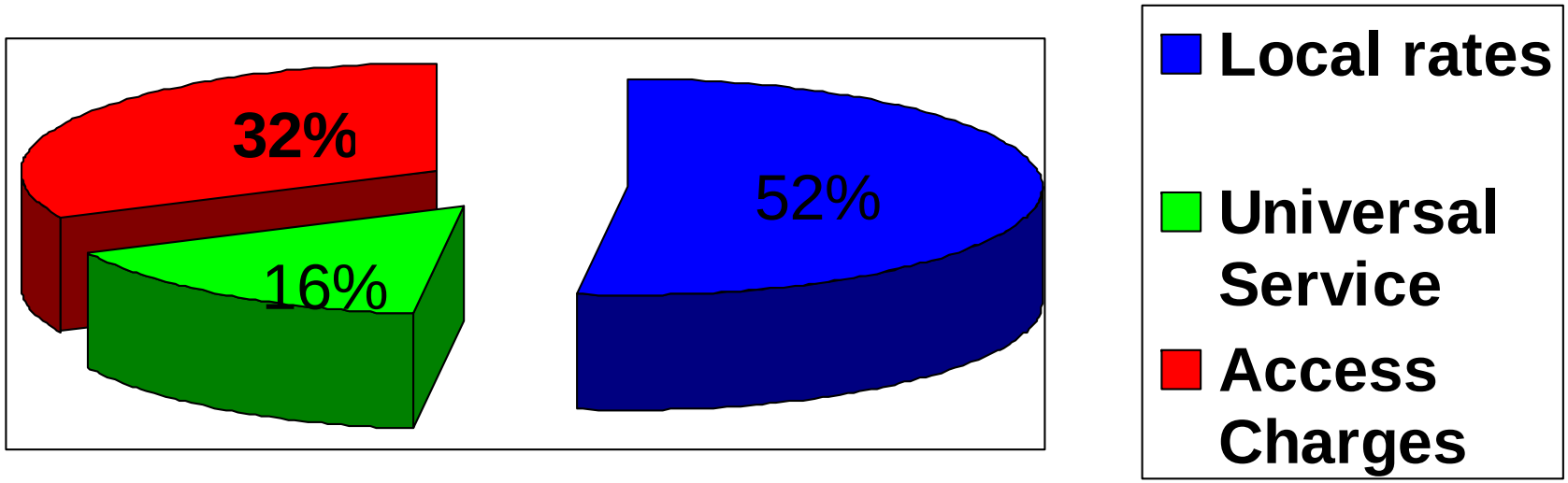
- **Low population densities – approximately 1/10th customer density of RBOC territories.**
- **Vast majority of exchanges served are less than 5,000 access lines per exchange.**
- **Majority of customer base is residential – 75% on average.**
- **Price cap and rate of return carriers represented.**
- **Publicly traded holding companies with plenty of existing incentives to keep costs contained for customers and shareholders.**
- **Experiencing declines in access lines, access revenue, and USF.**
  - **Terminating access MOUs increasing, but revenue declining due to phantom traffic, changing nature of traffic, and other causes.**
  - **Cost containment and cap on high cost loop fund.**
- **Acquiring and rehabilitating RBOC rural properties and other RLECs as they come up on the market.**
- **Investing in CLEC market entry.**
- **Aggressively deploying broadband in rural communities where the RLEC is often the only broadband provider.**

Rural DSL deployment growth
NECA Pool companies



Source: NECA

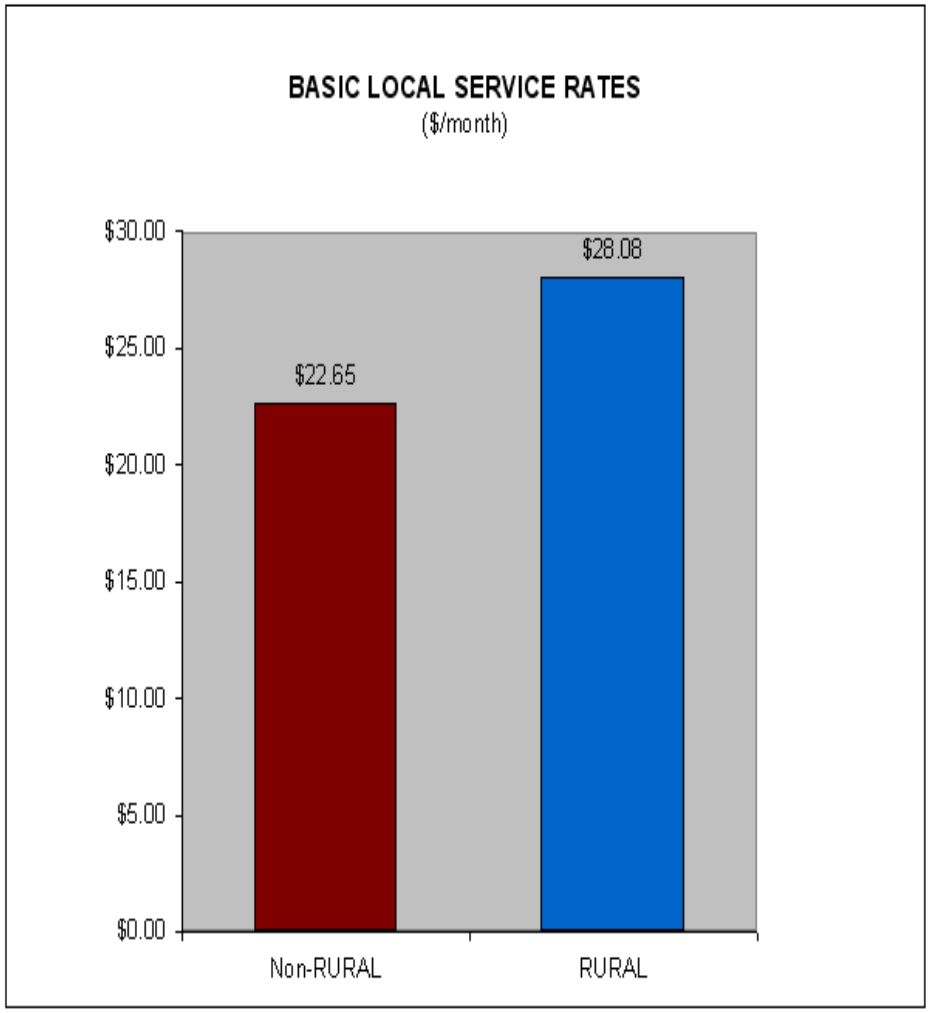
“Three legged telecom stool”



Rural costs are recovered from three sources. Policy has shifted cost recovery from access to universal service, with no revenue increase to rural ILECs.

Source: NECA 2001-2002, data from NECA companies

Non-rural v. rural local rates



- NECA conducted a special study to derive the average per month basic local service rate in rural study areas, derived by dividing total local service bills by the number of residential subscribers.
- Total local bill could include flat monthly charges, extended area service charges, local usage charges, local mileage charges, zone charges, local information calling charges, taxes, Federal and State subscriber line charges, and other mandatory surcharges (e.g., Federal Universal Service Charge, 911 surcharges etc.) and optional services such as touch tone. Does not include LD or optional services not commonly taken as part of local (e.g. DSL).
- The phone rates for non-rural carriers were taken from the FCC's Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service. This study has "basic local service" rates for a sample that includes 95 cities. *The definition of "basic service" is identical to the one used in the NECA data collection.*

NECA *Trends in Telecommunications Cost Recovery* (October 2002)

1996 Telecom Act USF Mandates

- 254(b) principles.
  - Quality service at just, reasonable and affordable rates (affordability a new concept in law). (b)(1)
  - Access to advanced services in all regions. (b)(2)
  - Reasonably comparable urban and rural/insular/high cost rates and services. (b)(3)
  - Specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service. (b)(5)
  - All providers of interstate telecoms services shall make "equitable and non-discriminatory" contributions.
    - Court interpretation precludes assessment on intrastate revenue to support federal fund.
  - Joint board added "competitive neutrality." (1997)
- 254(e) prohibition on cross subsidy.
  - Shall use support for maintenance and upgrading facilities and services for which support is intended.
  - Support must be explicit and sufficient to achieve universal service purposes.

Universal Service Fund increases not driven by “new” support for rural companies

RLEC growth driven by “zero sum” replacement for access reductions - ICLS

CETC support growing unabated

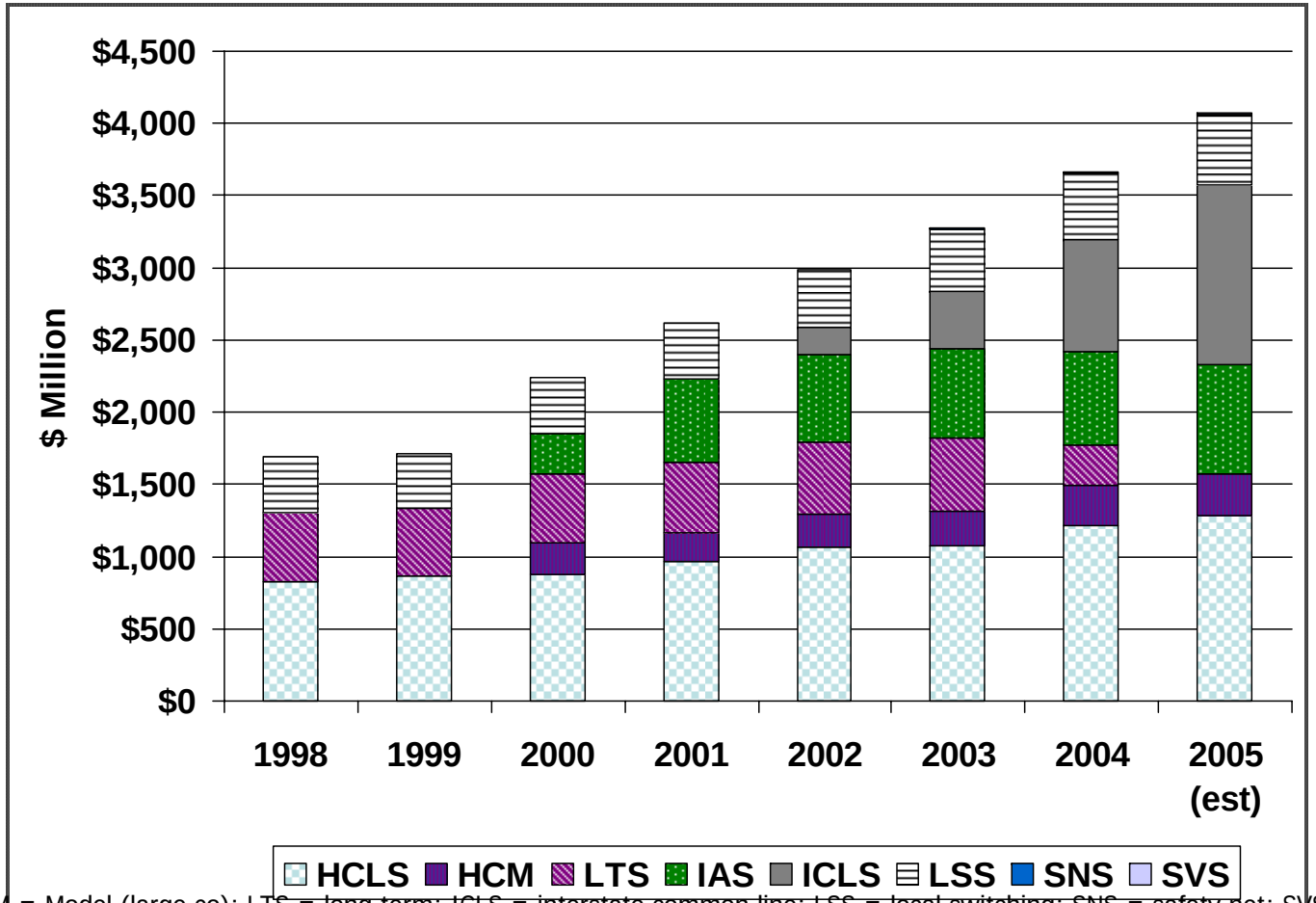
Universal Service Programs

High Cost Fund	**Annual**
High Cost Loop	$ 1,280.0M
Interstate Common Line	1,242.1M
Long Term Support	0.0M
Local Switching Support	475.4M
High Cost Model	290.3M
Interstate Access	762.5M
Safety Valve	3.3M
Safety Net	16.3M
Total High Cost Fund	**$4,069.9M**
Low Income Consumers Fund	$ 815.9M
Lifeline Assistance	
Link-Up America	
Schools and Libraries Fund	$2,250.0M
Rural Health Care Fund	$ 17.4M
Total Universal Service Fund	**$7,153.2M**

Source: USAC 3Q2005 Filing (annualized)

High Cost Funding

by Component ($Million)



HCLS = loop; HCM = Model (large co); LTS = long term; ICLS = interstate common line; LSS = local switching; SNS = safety net; SVS = safety valve

Note: Step function increases from program changes, shift from access revenue to universal service

Source: USAC

High Cost Support -ILEC vs CETC

High Cost Fund (Annual)	ILEC	CETC
High Cost Loop	$1,056.3M	$223.8M
Interstate Common Line	959.4M	282.7M
Long Term Support	0.0M	0.0M
Local Switching Support	390.1M	85.3M
High Cost Model	221.0M	69.3M
Interstate Access	602.5M	160.0M
Safety Valve	2.3M	1.0M
Safety Net	12.7M	3.6M
Total High Cost Fund	**$3,244.2M**	**$825.7M**

Source: USAC 3Q2005 Filing (annualized)

Universal Service Programs

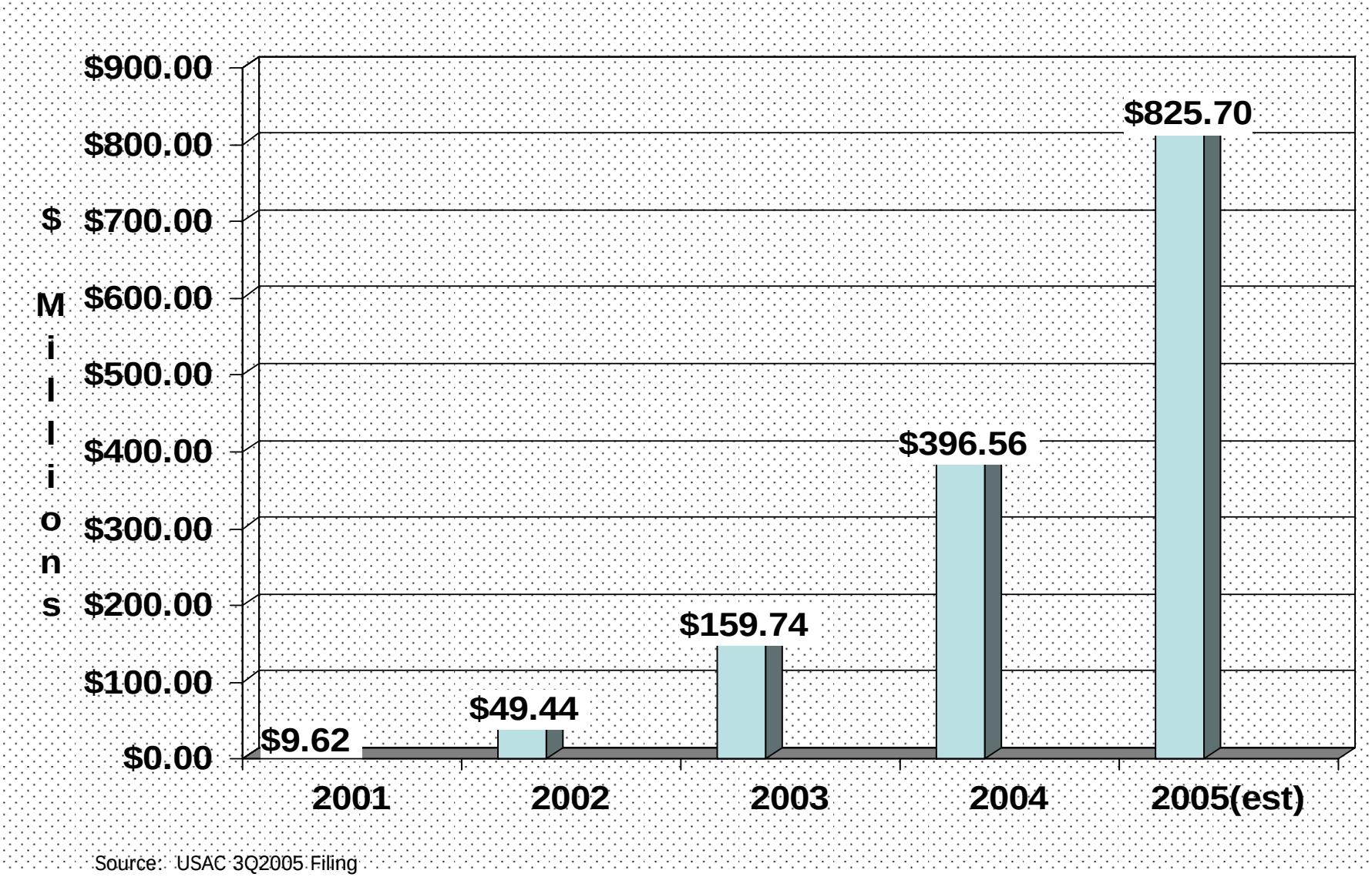
Rural CETC Growth

	3Q2002	3Q2005
Rural CETCs	26	161
Rural ILEC Study Areas with/CETCs	221	747
% of Total Rural High Cost Support	3.0%	17.8%

Source: USAC 3Q2005 Filing

1999 – 2004, CETC High-Cost support increased by triple-digit percentages each year, while ILEC recovery was flat other than MAG access charge shifts. 2004 Monitoring Report, Table 3.2

CETC Support



Source: USAC 3Q2005 Filing

Double Standards

- *Wireless CETCs receive identical support but don't provide identical service or face identical responsibilities.*
  - No COLR responsibilities.
  - Limited or no state quality of service and customer service regulation.
  - No unlimited local calling or other state retail and wholesale regulation.
  - Offer inadequate E-911 location identification.
  - No battery backup.
- Consider temporary moratorium on CETC approvals while states develop their supplemental ETC criteria.
  - Disciplined ETC process, federal and state, critical.
  - In long-term interest of CETCs as well.

Implications

- *Current* fund growth associated with increase in CETC funding.
  - So far, largest CMRS carriers (e.g. Verizon, Cingular) have largely refrained from seeking CETC status, but pressure is mounting.
- Number of Competitive (mainly wireless) ETCs increasing, with presence in more study areas.
  - Under “identical support rule” they also receive access-replacement support, although they did not receive access.
- Confusion over universal service purposes – promote rural service, promote competition, or both?

The “rural” definition should not be modified.

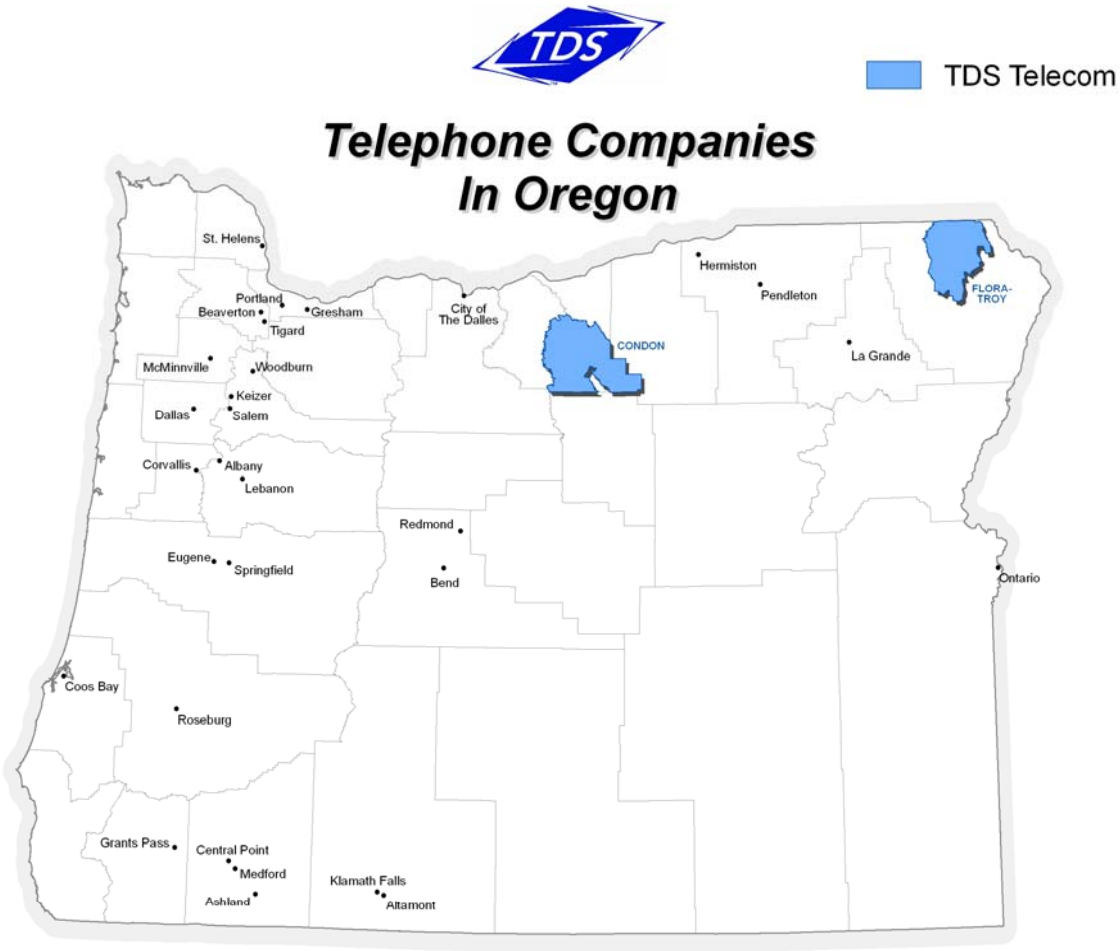
Eligibility should continue to be determined at the study area level

The definition should not be modified

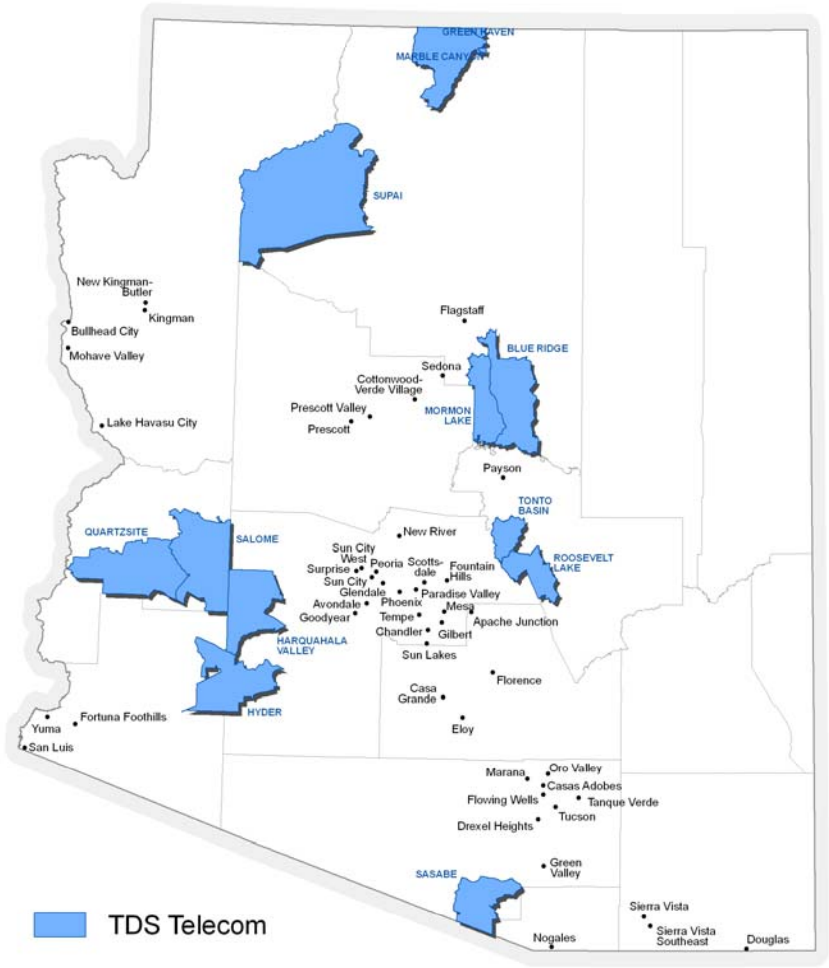
- Rural HCF program based on multi-part statutory definition of rural carrier:
  - Study area <100,000 or
  - Having less than 15 % of access lines in communities of more than 50,000.
- Joint Board asking whether holding company size should be considered, whether study area size should be further divided, whether demographics (e.g. density) should be considered.
- *"[The definition] contains multiple criteria for a reason. . . . Study areas served by rural carriers vary significantly in many aspects. . . . [Use of the Act's definition] captures the variability of these markets better than any single test would."* Testimony of Jeffrey Reynolds, Joint Board *en banc* hearing, November 17, 2004, tr. At 37.
- Sec. 254 focuses on "regions" and "rural, insular and high cost areas." These are the areas served by mid-size companies.

Study areas should not be combined to determine eligibility or support

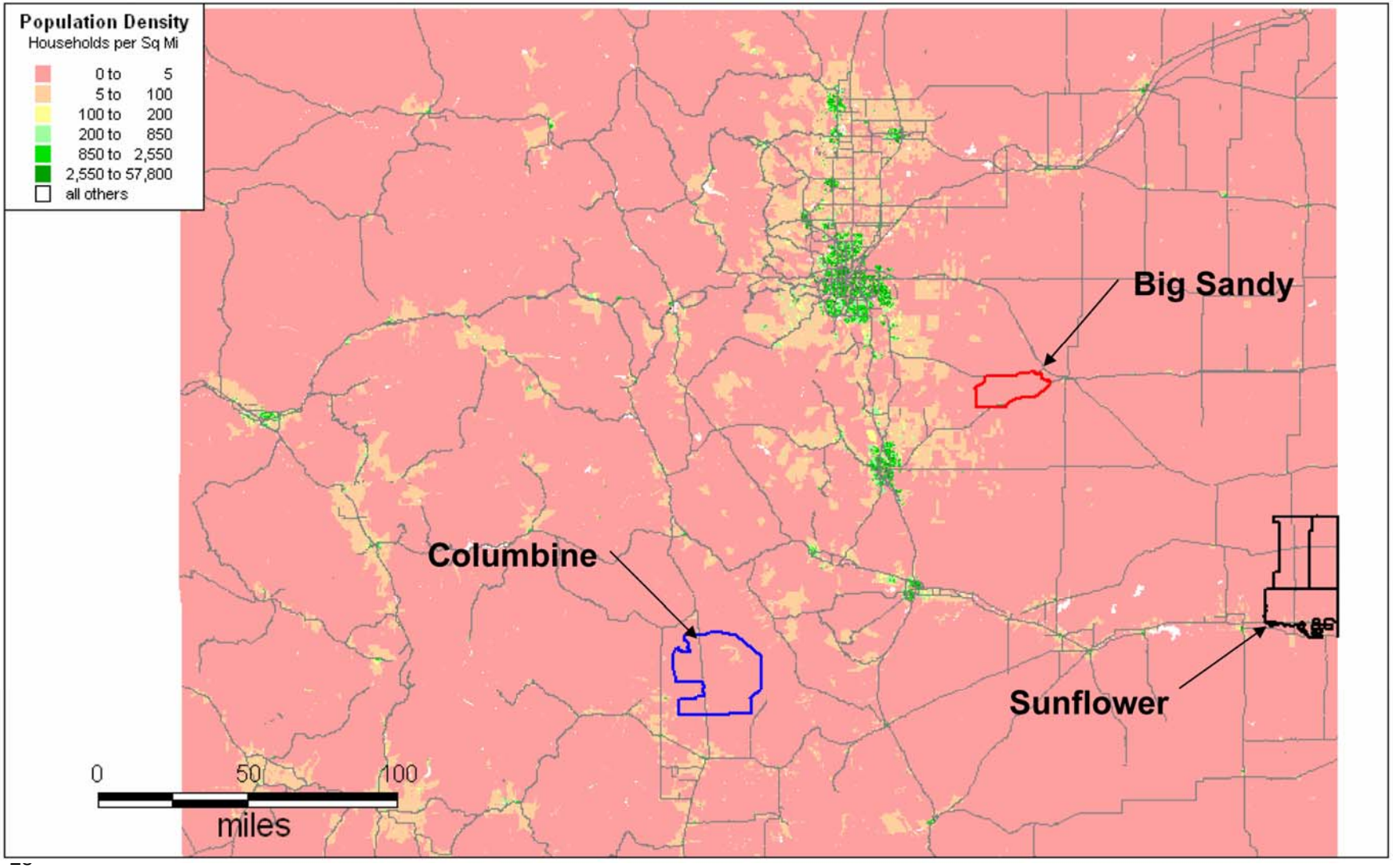
- Combining study areas would make support less “explicit.” 254(e)
  - Most study areas correspond to the operating company.
- Statewide averaging would reintroduce implicit subsidy at the state level – perpetuate some of the problems RBOCs have serving rural areas, but RLEC would not have urban markets to average out support.
- Statewide averaging would stifle efforts to consolidate rural sector and could lead to further fragmentation.
- High cost markets will still remain high cost regardless of the legal structure of the entity serving the market.
  - Higher costs of installing and maintaining loop plant.
  - Increased switching costs to serve smaller numbers of lines.
  - Difficult and challenging terrain, with study areas commonly a great distance apart.
- Economies that are present from holding company are automatically captured by actual embedded support basis.
  - Corporate ops expenses generally fall well below expense cap.


TDS
TDS Telecom
Telephone Companies
In Oregon
St. Helens
Portland
Beaverton
Gresham
Tigard
City of
The Dalles
CONDON
Hermiston
Pendleton
FLORA-
TROY
La Grande
McMinnville
Woodburn
Keizer
Salem
Dallas
Corvallis
Albany
Lebanon
Redmond
Eugene
Springfield
Bend
Ontario
Coos Bay
Roseburg
Grants Pass
Central Point
Medford
Ashland
Klamath Falls
Altamont

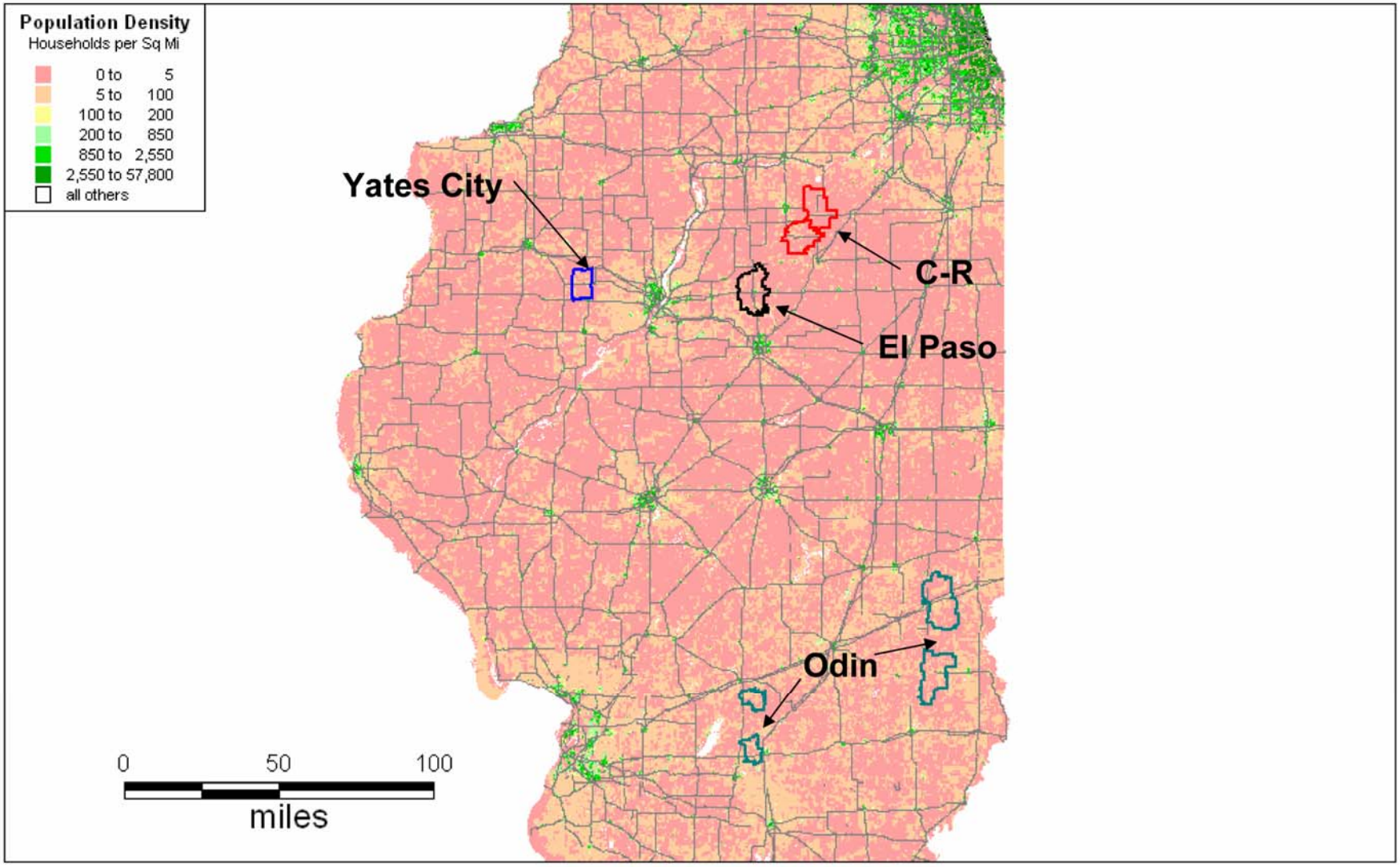
Telephone Companies In Arizona

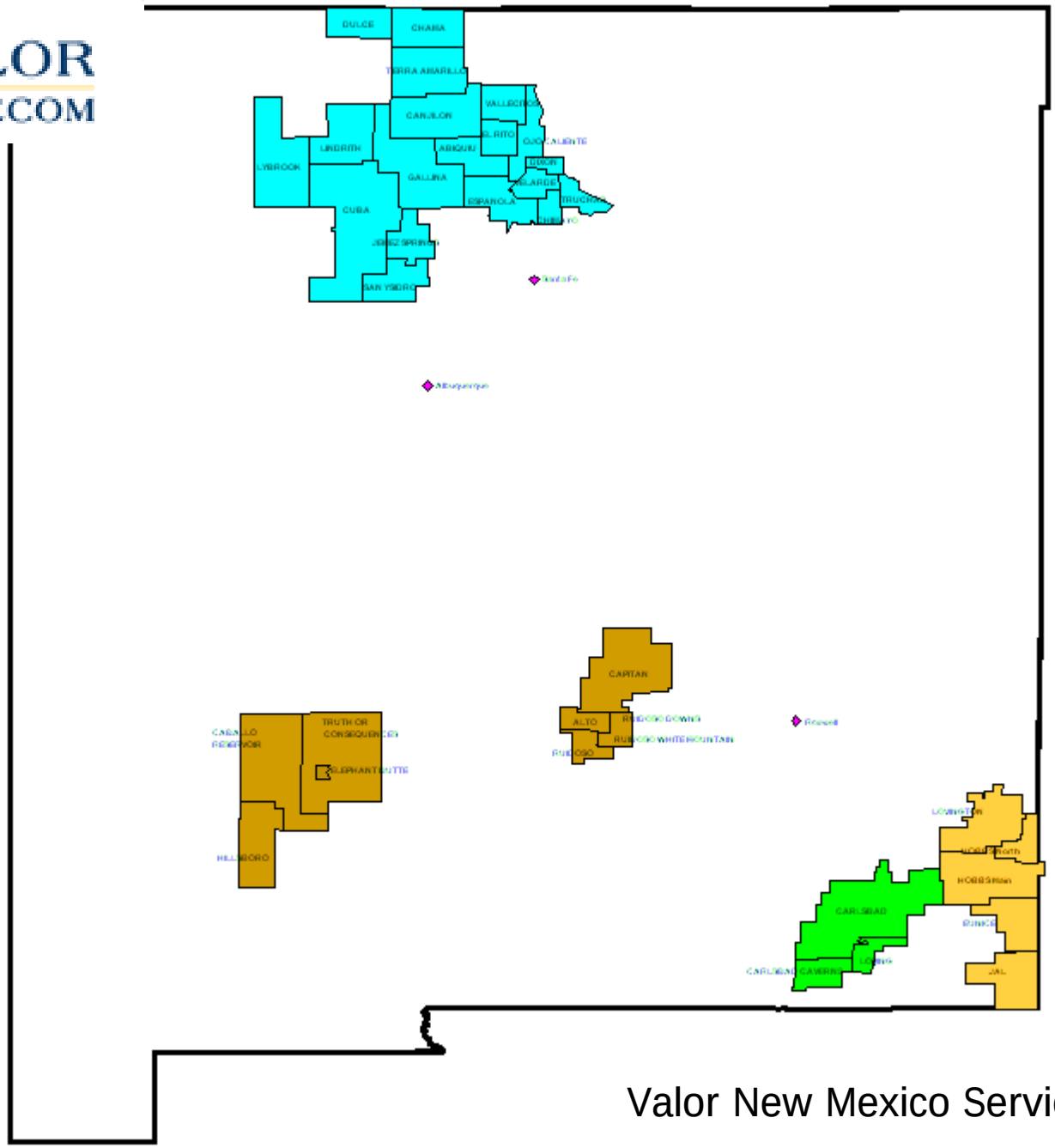


FairPoint-Colorado Study Areas



FairPoint-Illinois Study Areas





Valor New Mexico Service Territories

Study areas should not be combined to determine eligibility

- Most HCL costs are driven by service territory characteristics.
- Generally, mid-size company territories look like other RLEC areas:
    - Small number of lines.
    - Low density.
    - Dispersed from one another.
- Consolidation could drive changes in state rates to reflect change in support.
  - "Reasonable comparability" of *rates* could be undercut.
  - Cost and administrative burden to state commissions and parties.
- Could drive down capital spending, harming "reasonable comparability" of *service*, access to advanced services.

Qwest v. FCC

(10th Circuit, Qwest II, 2-23-05)

- FCC's 9th order, concerning large company HCF (11-99) remanded by Court (2001).
  - FCC failed to "provide sufficient reasoning or record evidence" to support its decision.
  - Insufficient explanation for using 135% of national average (rather than urban) cost as benchmark.
  - No "inducement" to state action.
- On Qwest I remand, FCC referred matter to Joint Board; largely adopted the Board's recommendation (Martin, Rowe dissenting) FCC order issued March '03.
- For second time, court remands FCC's decision concerning the large company HCF.
- FCC relied on **erroneous or incomplete construction of Sec. 254** in defining statutory terms and crafting the mechanism

Support should be based on a company's own costs

It is costly, inefficient, and anti-competitive to give CETCs support based on another company's documented costs.

Support should be based on own costs

- Competitive wireless carriers argue current "identical support" is competitively neutral.
  - Claim:*"Must not establish different methodology for different technologies"* (Western Wireless ROC presentation 3-14-05)
    - But: If *same* methodology applied to *different* technologies with *different* costs, resulting support would be *different,* not "identical."
    - "Identical support" for CETCs ***is*** not competitively neutral today.
  - Claim: "Own cost" would violate competitive neutrality and send wrong signals to investors and markets. (WW presentation)
    - But: ILEC support is based on already-incurred expenses.
    - Absent standards, analysts treat wireless CETC support as practically pure margin.
- Support should be based on each carrier's own costs utilizing the appropriate cost study for each class of carrier.

Support should be based on own costs

- Joint Board and FCC must weigh network/COLR focus versus using USF to stimulate competition – How many ETCs should be supported per market.
- CETCs should receive support based on CETCs' own costs.
  - Differing cost drivers, service obligations, and cost structures.
  - "Identical support" invites abuse, business plans based on seeking HCF.
  - Without standards, is value provided to customers for support paid?
    - E.g. limited evidence of new cell tower construction where CETC designation granted.
- "Actual cost" basis, coupled with rigorous certification and review will discipline fund growth

FLEC generally not appropriate to rural carriers

- When FCC adopted “hybrid cost proxy model” for non-rural companies it retained embedded cost approach for rural carriers until “sufficient validation that forward-looking support mechanisms for rural carriers produce results that are sufficient and predictable.” (Order, May 1997)
- Rural Task Force, The Rural Difference (White Paper 2, 1-’00) described key differences between rural and non-rural carriers and the issues described have not changed in five years.
- RTF White Paper 4 compares Model results with actuals for 218 RLECs and the results were widely dispersed.
- RTF recommended that embedded cost continue to be used.
  - RTF recommended *“no barriers to advanced services”* in network design, construction, and support.
  - Embedded *“inherently provides incentives for the infrastructure investments necessary for providing access to advanced services. . . . (T)o remain “sufficient” . . . the fund should be sized so that investment in rural infrastructure will be permitted to grow.”* Recommendation, pp. 22-3.

HCPM deficiencies not adequately addressed

- Generally little attention to maintaining or correcting flaws in model since its adoption.
  - Limited FCC staffing (sometimes none).
  - No systematic Joint Board attention to model operations.
  - Any ncreased precision will come at increased cost.
  - Limited industry attention or resources.
    - “Synthesis” came out of competing industry approaches, “Hatfield” (MCI, AT&T). Benchmark Cost Proxy Model (U.S. West, BellSouth, Sprint)
- Embedded costs consistent with Section 254.
  - Specific and predictable. (b)(5)
  - Better able to achieve reasonable comparability of rates and service. (b)(3)
  - Better able to promote access to advanced services. (b)(2)
- Reasonable predictability of cost recovery allows rural rate of return carriers to invest in networks, facilitates ATC deployment over networks.

FLEC could be allowed for price cap rural companies

- Unique Iowa Telephone situation.
  - Acquired under-invested properties that Iowa Tel is now aggressively rebuilding.
- Suggest: Rural price cap carriers that can present a FLEC model that takes concerns such as the RTF's into account should be permitted to receive HCF based on such models.
  - Extensive Iowa Tel work to develop company-specific information
    - Appropriate fill factors.
    - Depreciation rates based on appropriate financial records and switch discounts.
    - Recognize building rather than leasing where more appropriate.
    - Encourage high quality network, e.g. Carrier Serving Area loop design, reliability issues replacing small switching offices with DLC, need for rural fiber rings.
  - Rural price cap carriers should have an opportunity to invest in their networks and upgrade service for their customers.

Embedded costs (based on rate of return) are authenticated and constrained

- Confusion over use of “rate of return” in actual cost calculation.
  - Basic formula: R=O+D+T+(rxK). R = total revenue required. O = Operating expenses. D = Depreciation. T = Taxes. r = required return. K = rate base.
    - Investments used to serve customers.
    - Expenditures prudently incurred.
- Multiple layers of review before and after support provided.
  - Support based on investment - facilities to serve customers - made over a year earlier.
  - NECA reporting and auditing requirements.
  - New USAC auditing program.
  - State review.
  - NARUC work group on ETC certification review.
- Only portion of costs are reimbursed through USF (intrastate allocation).
  - Un-reimbursed portion (roughly ¼) provides further discipline for all costs.
- Conclusion: “Rate of return” used by rural carriershas provided stability for many small and medium size companies to invest and improve services to customers. “***The proof is in their networks.”***

Problems with the Fund Cap and Parent Trap Issues

Fund cap and negative growth factor suppress support in relation to cost

- High cost loop fund cap reduces proportion of recoverable RLEC costs.
  - Capped v. uncapped difference is $465 million.
- High cost loop growth factor = rural line growth + inflation.
  - The factor did not envision negative line growth, which drives support further away from actual cost.
- Year-over-year projected decline in high cost loop support for RLECs.
- Because networks have high fixed costs, negative line growth does not cause equivalent drop in costs.
- Variable costs such as fuel and medical expenses have been increasing.
- RLECs are faced with the prospects of reduced investment, declining service, or increased customer cost.
- State regulators may be forced to factor in shortfalls.

Cap-related shortfall increasing year-to-year

Year	Capped	Uncapped	Difference
2005	$1,056,300,000	$1,521,579,759	($465,279,759)
2004	$1,056,800,000	$1,360,092,402	($303,292,402)
2003	$1,044,600,000	$1,243,201,380	($198,601,380)

$240 cap; based on annual FCC filings

Rural Growth Factor (RGF)

		Percentage Change	
Year	RGF	Loop	GDP-CPI
2002	5.53	3.26	2.27
2003	2.27	-0.1	2.37
2004	2.66	1.53	1.13
2005 ytd	-0.04	-1.87	1.83

Source: NECA

Investment in distressed property should be supported

- Joint Board currently considering support for exchanges purchased by RLECs from large companies.
- Section 54.305 rules currently limit purchaser's support to that received by seller.
- Acquired property often needs extensive investment, as seller has previously determined to sell them and reduced investment.
  - Purchaser typically invests heavily in first few years after acquisition.
  - May have sale-related obligations to state commission to improve facilities and service.
- Seller generally received support through the large company program.
- "Safety valve" provides limited support for purchaser's investment.
  - Support for 50% of loop plant investment.
    - Does not recognize full investment, and funds only part of what is recognized.
  - Safety valve support total capped at 5% of high cost loop fund (approx. $53 million).
    - Expected 2005 payouts $6.292m (USAC HC07, 3Q05).

Investment in distressed property should be supported

- Current policy well-intended but:
  - Deters rational transactions– getting markets and customers into hands of those eager to serve them.
  - Little incentive to bring markets up to acceptable standards.
  - Inconsistent with policy goals for rural deployment of advanced services.
- "Penalizing customers who reside in areas where prior exchange owners chose not to invest is surely not [the Congress's] intended result." Iowa Tel initial comments, p. 9.
- At a minimum, acquirer should be eligible for support for actual investment made following an acquisition.
  - Measure baseline cost-per-loop on seller's cost at time of acquisition.
  - Receive 75% of difference between its average loop cost and baseline in the first few years after acquisition.
  - Provide comparable relief for non-loop expenditures.
- Modifications partially address, but more to do. (70 FR 40, March 2, 2005, p. 10060.)

Summary conclusions

Summary conclusions

- **Effective reform should be both:**
  - Economically viable.
  - Politically feasible.
- **Mid-sized rural carriers provide high quality basic service, access to advanced services, and COLR service.**
- **USF support increases to RLECs have been revenue neutral access replacements: "old money."**
  - Due to the cap and rural growth factor, support to mid-size companies is in some cases now decreasing notably, with future adverse effects on investment and customers.
- **USF support to CETCs is "new money," and is the primary driver of incremental fund growth.**
- **The "rural" definition for universal service should not be modified, and eligibility should continue to be determined on the study area basis.**
  - Achievable efficiencies are generally captured.
  - Investment is not discouraged.

Summary conclusions

- **Support should be based on the ETC's or CETC's own costs.**
  - "Portability" of support is inefficient, and incents neither efficient competition nor investment.
- **Embedded costs should continue to be used for most carriers.**
  - Embedded cost basis has encouraged investment for most carriers, is disciplined.
  - Could consider FLEC alternative for electing carriers.
  - Specific changes are required (Cap, Rural Growth Factor) in current market, to insure that carriers are able to continue investing in modern and reliable networks.
- **Rigorous ETC certification and review is in the interest of all ETCs and CETCs over the long run.**

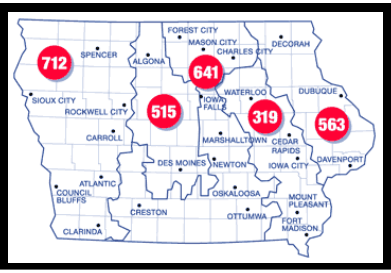
Appendices

Company profiles

Additional data

Company Profiles

Company Overview

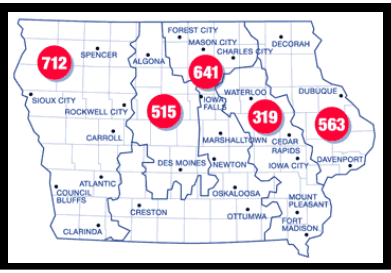


IOWA TELECOM

History

- Formed in 1999 to acquire GTE's Iowa Operations.
- Transaction closed July 1, 2000.
- 15th Largest LEC in the U.S.
- Publicly Held as of November, 2004.
- Provider of local, long distance and data serviced to rural Iowa via ILEC, CLEC and data subsidiaries.
- Headquartered in Newton, Iowa, with 625 employees statewide.

Company Overview

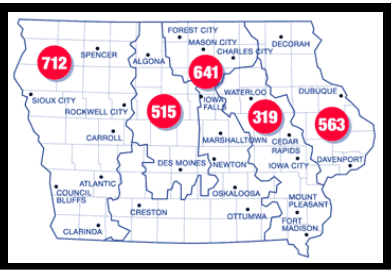


IOWA TELECOM

Operating Demographics

- 266,400 Access lines.
  - 249,000 ILEC lines in 425 communities.
    No community over 16,000.
  - 17,400 CLEC lines serving 18 Qwest communities.
- Significant statewide telecommunications network.
  - Operate four tandem switches.
  - 294 switching locations.
  - 33,000 miles of copper cable.
  - 2,750 miles of fiber optic cable.
- Customer Service.
  - 3 customer contact centers.
  - 16 customer walk-in locations.
  - Over 150 field technicians and technical support personnel though out the state.

Company Overview

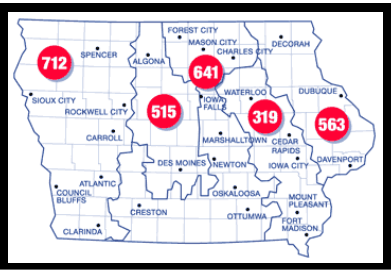


IOWA TELECOM

Operating Demographics

- Rural Characteristics:
  - ILEC serves 1 community greater than 10,000 people.
  - ILEC serves 13 access lines per square mile, compared to national rural. average of 43 lines per square mile.
  - 76 percent of customers are residential service customers.
  - 75 percent of others serve less than 1000 lines.
  - Strong local brand identity.
- Regulatory Statistics.
  - A price cap carrier (CALLS) for interstate operations; smallest price cap carrier in nation.
  - Price cap regulated in the state jurisdiction.
- Victim of unintended consequences.
  - No High Cost Loop support because prior owners made little investment.
  - Iowa Tel has nonetheless made substantial investment, and upgraded service.
  - Needs more flexibility in method to determine support.

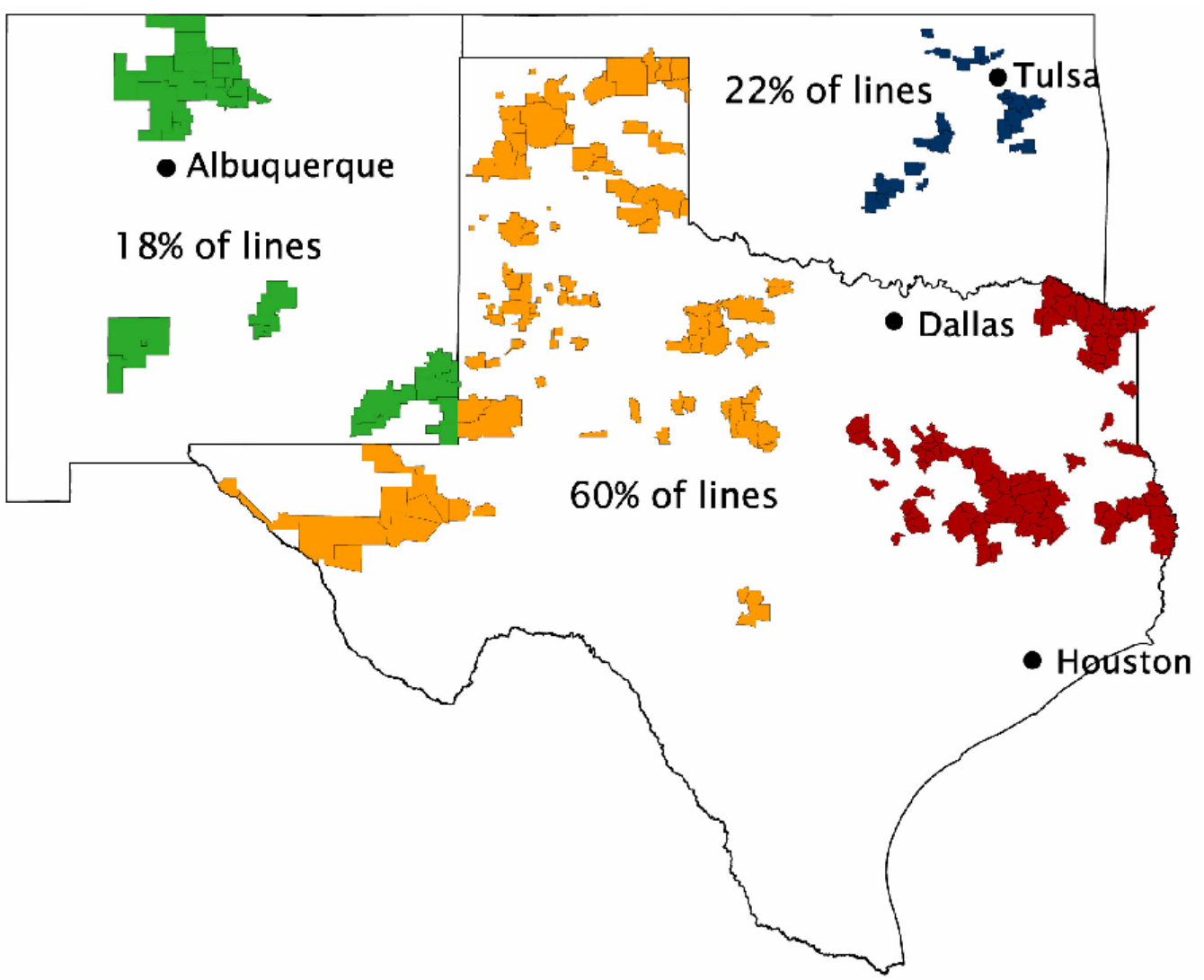
Company Overview



IOWA TELECOM

Accomplishments

- Provided Dial-up Internet statewide (2001).
- Introduced DSL High-Speed Internet service into Iowa markets (2001).
- Formed CLEC operations (2002).
- Launched Iowa Telecom Data Services (2003).
- Launched Connect Rural Iowa investment program (2004).
- Committed to complete implementation of DSL High-Speed Internet service in all central office locations by July 1, 2005.
- Expansion of voice/e-mail integrated voice mail service (2005).



VALOR TELECOM

Company Overview

History

- Formed in 1999 to acquire GTE properties in Texas, Oklahoma, New Mexico and Arkansas, and commenced operations in 2000.
- In 2002, acquired the Kerrville (TX) Telephone Company.
- As of first quarter 2005, VALOR serves 537,000 access lines, making it the 12th largest LEC.
- VALOR became a public company (NYSE:VCG) in February 2005.
- Headquartered in Irving, TX, VALOR employees more than 1,300 people.

VALOR TELECOM

Company Overview

Operating Demographics

- VALOR provides local, long distance and data services as an ILEC in 257 mostly rural markets.
  - 92% of VALOR's exchanges have fewer than 5,000 access lines.
  - 196 markets served by VALOR have fewer than 2,000 access lines.
  - Only 7 markets served by VALOR have more than 10,000 access lines.
  - VALOR serves an average of 11 access lines per mile throughout its region.
  - In Texas, accounting for 60% of its access lines, VALOR serves only 9.75 access lines per square mile.
- 73% of customer base is residential.

VALOR TELECOM

Company Overview

Operating Demographics

- Over $375 million of capital invested since inception to create a state of the art network.
- VALOR's network has 47,000 route miles of copper cable and 3900 route miles of local and long-haul fiber.
- VALOR deployed a network operations center that monitors all network, transport and ATM elements, digital switching systems and Internet infrastructure on a 24/7 basis.
- Custom calling features and voice messaging are now available for almost 100% of customers.
- VALOR uses call centers located in Texarkana, TX and Carlsbad and Espanola, NM to serve its four state customer base.

VALOR TELECOM

Company Overview

DSL Deployment

- Through March 31, 2005:
  - VALOR had invested $9.3 million in DSL technology.
  - VALOR can deliver DSL to 275,000 customers, or 64% of its customers.
  - VALOR had 31,208 DSL subscribers, or a penetration rate of 5.8%.
  - VALOR grew its DSL customer base by 20,189 subscribers, or 211%, from 1Q04 to 1Q05.
- In September 2004, VALOR completed a project to deploy DSL to 55 wire centers, and it continues to add new DSL markets on a monthly basis.

VALOR TELECOM

Company Overview

Universal Service

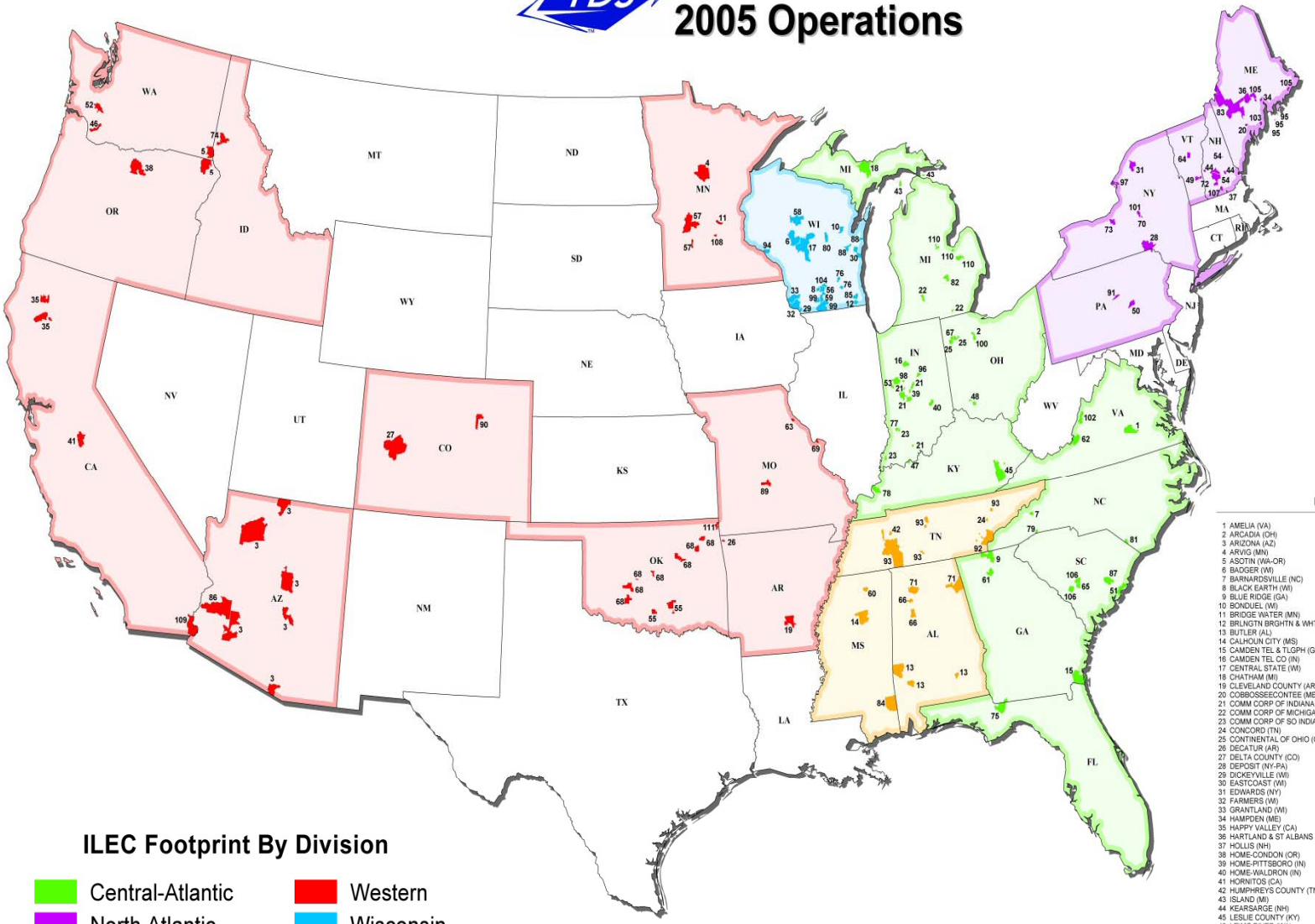
- VALOR receives no state or federal high cost support in Oklahoma or New Mexico.
- VALOR receives less than $1 million per year in federal high cost support in Texas.
- VALOR receives significant support from the Texas Universal Service Fund, which was implemented in conjunction with substantial intrastate access reductions.
  - VALOR intrastate access rates in Texas now less than $.02 per minute.
  - VALOR receives TUSF funding on approximately 60% of its access lines, based on the costs of the access lines vs. a benchmark cost.
  - Support is provided on a per line basis in the high cost exchanges; support is portable to facilities based competitors.

VALOR TELECOM

TDS Telecommunications

- TDS is a Chicago-based Fortune 500 telecommunications corporation founded in 1969.
- TDS TELECOM has consistently sought to bring the highest quality, advanced communications services to its customers.
- The ILEC Operations include 112 local exchange companies across 28 states serving over 700,000 lines.
  - Range in size from 571 to 70,000 access lines.
  - Average number of lines per exchange 1,905 – 44% of exchanges serve fewer than 1000 lines.
  - Average number of access lines per square mile – 19.
  - DSL service to over 47,000 customers, and available to roughly 70% of our customer base.
  - Long distance service to over 277,000 customers.
  - Internet access service to over 150,000 customers.
  - Customer satisfaction levels at or near the top of the industry.
- The CLEC Operations provide service to over 400,000 lines in 5 states.
  - Full service, facilities based carrier.
  - Provide service to both business and residential customers.
  - Rated at or near top of every category in customer satisfaction.

2005 Operations



ILEC Footprint By Division

- Central-Atlantic
- North Atlantic
- South Central
- Western
- Wisconsin

ILEC Companies

1 AMELIA (VA)
2 ARCADIA (OH)
3 ARIZONA (AZ)
4 ARVIG (MN)
5 ASOTIN (WA-OR)
6 BADGER (WI)
7 BARNARDSVILLE (NC)
8 BLACK EARTH (WI)
9 BLUE RIDGE (GA)
10 BONDUEL (WI)
11 BRIDGE WATER (MN)
12 BRLNGTN BRGHTN & WHTLND (WI)
13 BUTLER (AL)
14 CALHOUN CITY (MS)
15 CAMDEN TEL & TLGPH (GA)
16 CAMDEN TEL CO (IN)
17 CENTRAL STATE (WI)
18 CHATHAM (MI)
19 CLEVELAND COUNTY (AR)
20 COBBOSSEECONTEE (ME)
21 COMM CORP OF INDIANA (IN)
22 COMM CORP OF MICHIGAN (MI)
23 COMM CORP OF SO INDIANA (IN)
24 CONCORD (TN)
25 CONTINENTAL OF OHIO (OH)
26 DECATUR (AR)
27 DELTA COUNTY (CO)
28 DEPOSIT (NY-PA)
29 DICKEYVILLE (WI)
30 EASTCOAST (WI)
31 EDWARDS (NY)
32 FARMERS (WI)
33 GRANTLAND (WI)
34 HAMPDEN (ME)
35 HAPPY VALLEY (CA)
36 HARTLAND & ST ALBANS (ME)
37 HOLLIS (NH)
38 HOME-CONDON (OR)
39 HOME-PITTSBORO (IN)
40 HOME-WALDRON (IN)
41 HORNITOS (CA)
42 HUMPHREYS COUNTY (TN)
43 ISLAND (MI)
44 KEARSARGE (NH)
45 LESLIE COUNTY (KY)
46 LEWIS RIVER (WA)
47 LEWISPORT (KY)
48 LITTLE MIAMI (OH)
49 LUDLOW (VT)
50 MAHANOY & MAHANTONGO (PA)
51 MCCLELLANVILLE (SC)
52 MCDANIEL (WA)
53 MERCHANTS & FARMERS (IN)
54 MERRIMACK COUNTY (NH)
55 MID-AMERICA (OK)
56 MID-PLAINS (WI)
57 MID-STATE (MN)
58 MIDWAY (WI)
59 MT VERNON (WI)
60 MYRTLE (MS)
61 NELSON-BALL GROUND (GA)
62 NEW CASTLE (VA)
63 NEW LONDON (MO)
64 NORTHFIELD (VT)
65 NORWAY (SC)
66 OAKMAN (AL)
67 OAKWOOD (OH)
68 OKLAHOMA COMM SYSTEMS (OK)
69 ORCHARD FARM (MO)
70 ORISKANY FALLS (NY)
71 PEOPLES (AL)
72 PERKINSVILLE (VT)
73 PORT BYRON (NY)
74 POTLATCH (ID)
75 QUINCY (FL-GA)
76 RIVERSIDE (WI)
77 S & W (IN)
78 SALEM (KY)
79 SALUDA MOUNTAIN (NC)
80 SCANDINAVIA (WI)
81 SERVICE (NC)
82 SHIAWASSEE (MI)
83 SOMERSET (ME)
84 SOUTHEAST MISSISSIPPI (MS)
85 SOUTHEAST OF WISC (WI)
86 SOUTHWESTERN (AZ)
87 ST STEPHEN (SC)
88 STOCKBRIDGE & SHERWOOD (WI)
89 STOUTLAND (MO)
90 STRASBURG (CO)
91 SUGAR VALLEY (PA)
92 TELLICO TEL CO (TN)
93 TENNESSEE (TN)
94 TENNEY (WI)
95 THE ISLAND (ME)
96 TIPTON (IN)
97 TOWNSHIP (NY)
98 TRI-COUNTY (IN)
99 UTELCO (WI)
100 VANLUE (OH)
101 VERNON (NY)
102 VIRGINIA (VA)
103 WARREN (ME)
104 WAUNAKEE (WI)
105 WEST PENOBSCOT (ME)
106 WILLISTON (SC)
107 WILTON (NH)
108 WINSTED (MN)
109 WINTERHAVEN (CA)
110 WOLVERINE (MI)
111 WYANDOTTE (OK)

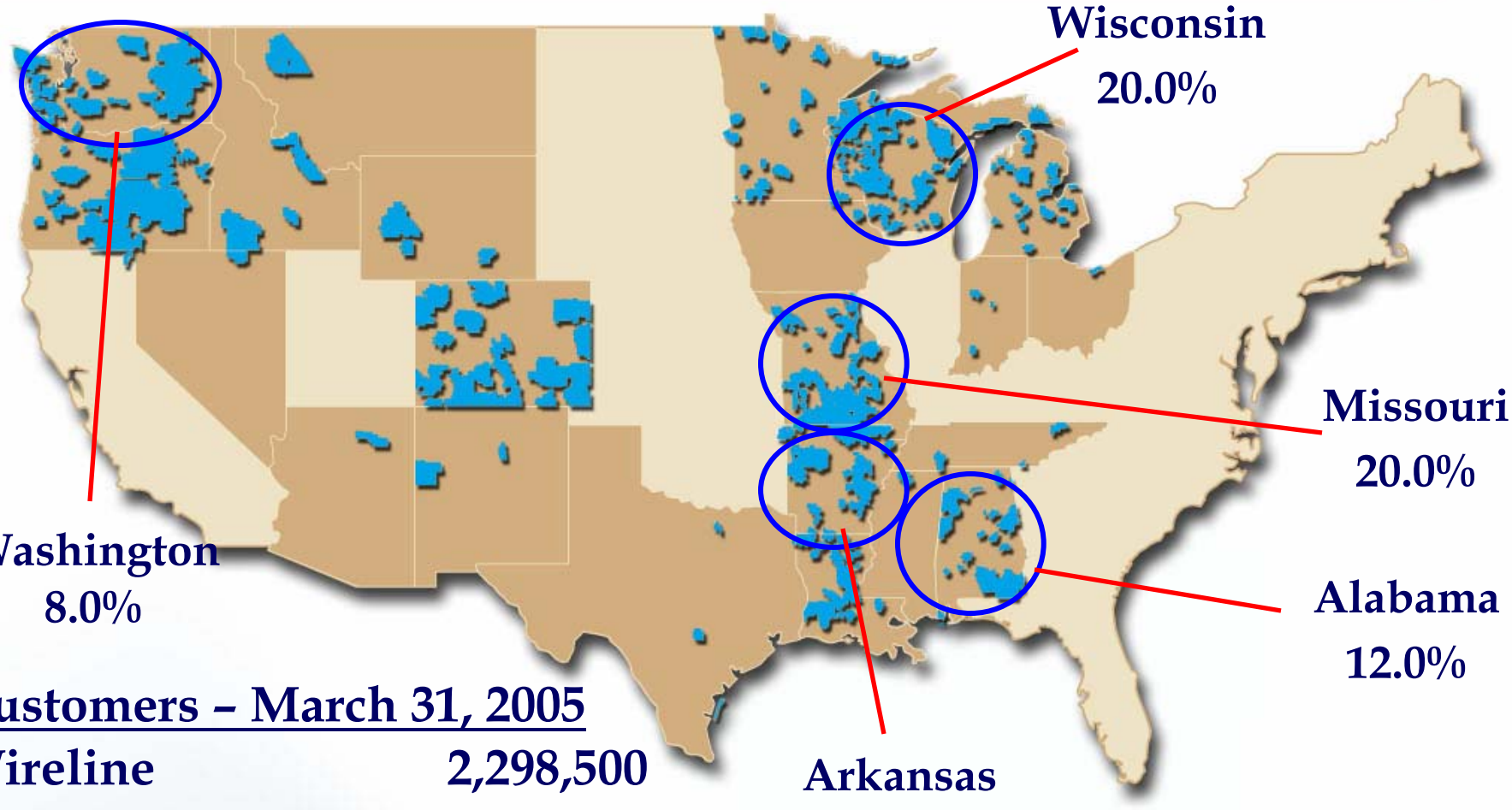
Prepared by Douglas Norgord, TDS Telecom Network Services File: TelecomOpsILEC_05.mxd 01/15/05

CenturyTel

- One of the Leading Telecom Wireline Operators in Rural Areas and small towns.
- 2.3MM ILEC Access Lines and 7,000 Employees in 22 States.
  - The 8th Largest ILEC in the US.
- Pursuing Aggressive Broadband Deployment, rehabilitation of acquired properties.
- 75% of Access Lines are Residential.
- Average Exchange = 2,247 lines, 50 % of exchanges serve fewer than 1,200 lines.
- Access Line Density of 12.37 per Square Mile.
- Fewer than 11 lines per route mile of cable plant.
- Serves some of the poorest communities in Alabama, Arizona, Arkansas, Louisiana, New Mexico, Mississippi, and Missouri. (USDA, High Poverty Counties, www.ers.usda.gov/briefing/incomepovertywelfare/highpoverty/)

CENTURYTEL

Geographic Footprint

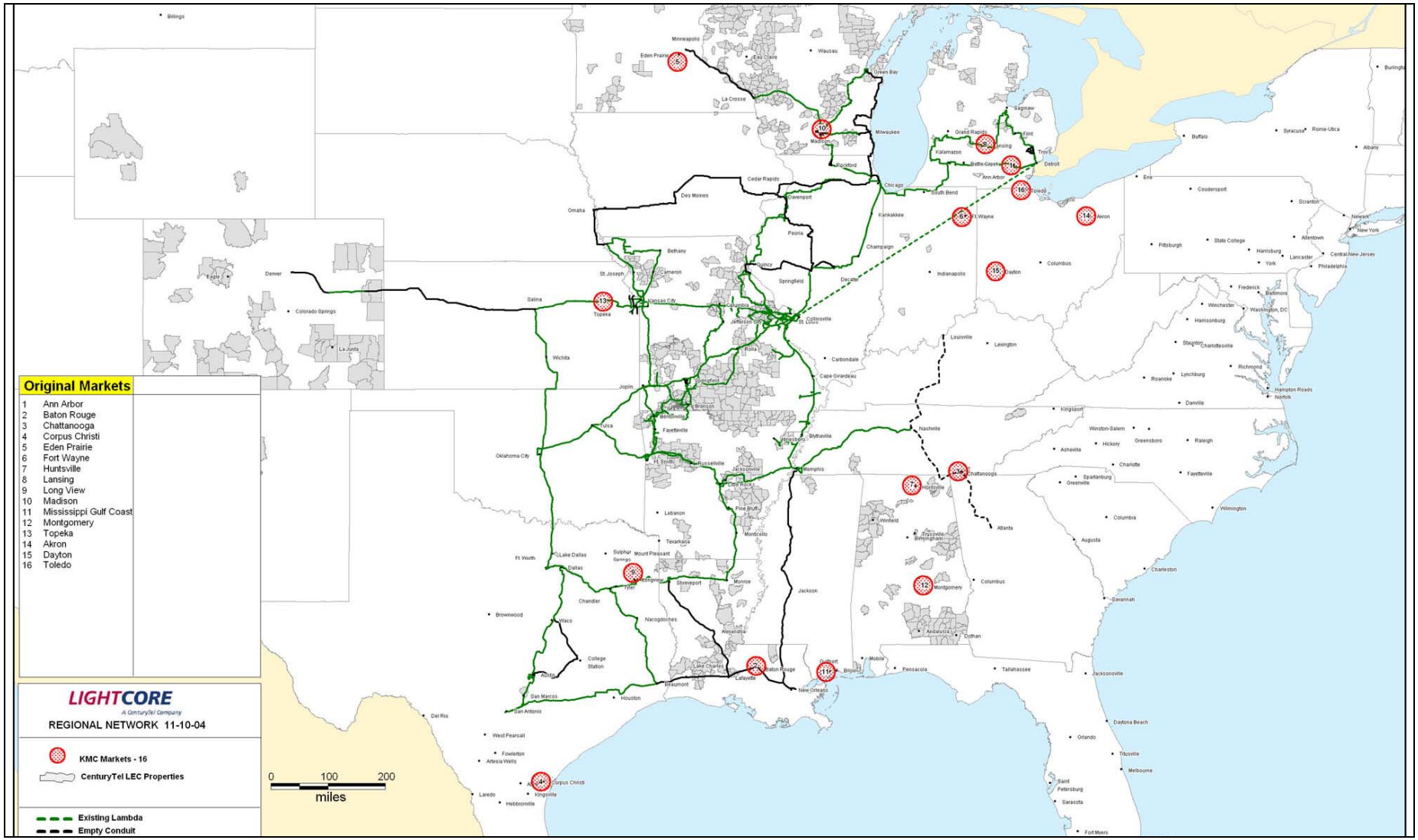


Customers – March 31, 2005

Wireline	2,298,500
Long Distance Lines	1,097,200
Internet	123,600
DSL	173,800

CENTURYTEL

LightCore Network Map



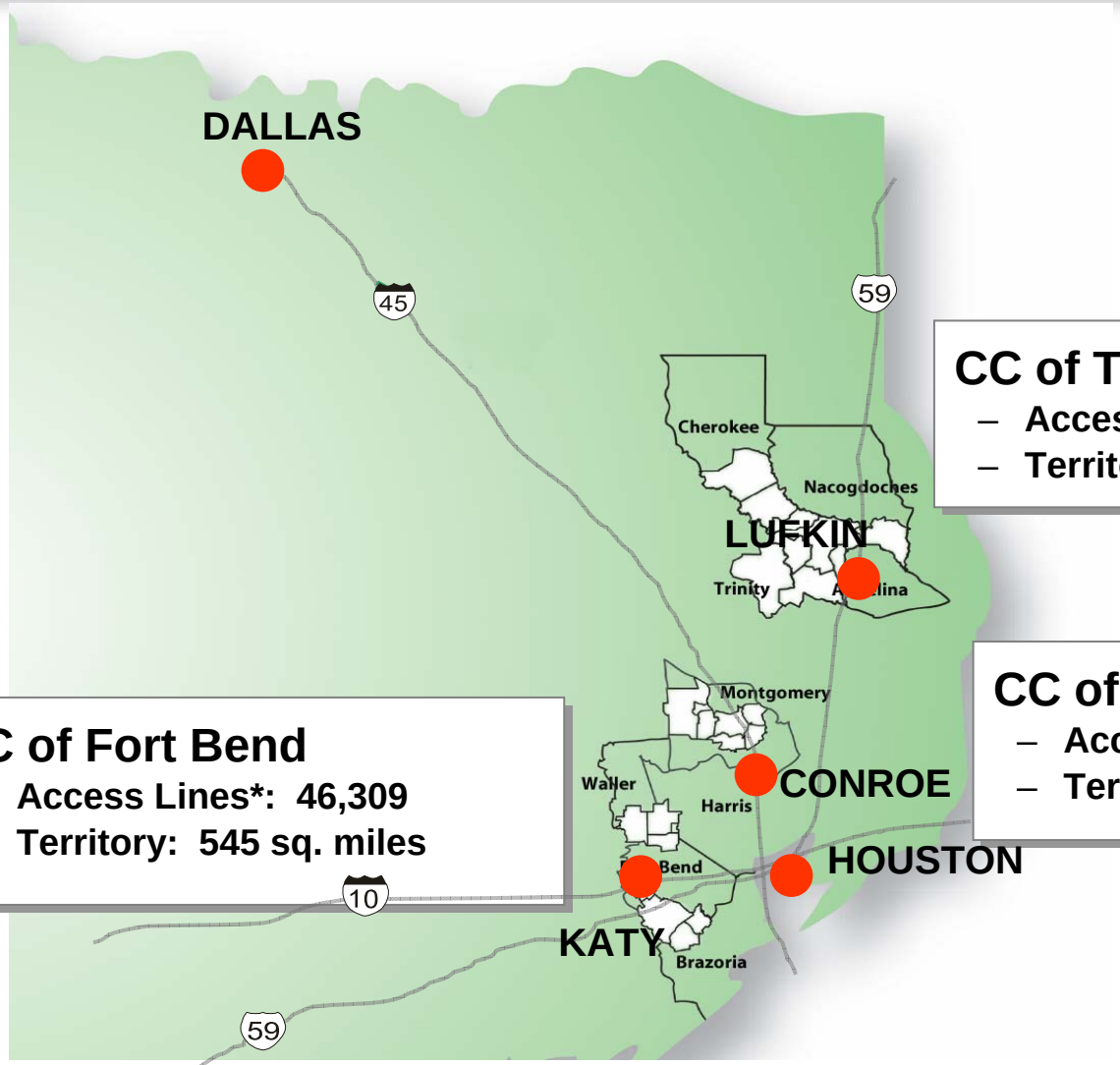
Corporate Overview

Consolidated®
communications

Company Overview

- 15th largest telco in U.S., 110 years old.
  - Full-service telecommunications provider offering a wide range of products including local, long distance, internet, DSL, VOIP, Video DSL, operator services, directory publishing, telecom equipment and network services.
- Serving 252,000 access lines in 59 exchanges.
  - 70% of access lines are residential.
  - 90% of our exchanges are less than 10,000 access lines.
- 90% of access lines are DSL capable
  - 28,000 DSL lines.
- 1,550 employees in Illinois and Texas.
- Committed to investing in rural communities and people.

Texas Serving Areas



CC of Texas – Lufkin Area
- Access Lines*: 47,629
- Territory: 1,080 sq. miles

CC of Texas – Conroe Area
- Access Lines*: 74,545
- Territory: 433 sq. miles

CC of Fort Bend
- Access Lines*: 46,309
- Territory: 545 sq. miles

Source: U.S. Census Bureau and Global Insight for population and CAGR (1990 to 2000)
*Access Lines as of December 31, 2004

Illinois Service Area

Illinois Consolidated Telephone Company

- **Access Lines*: 83,533**
- **Territory: 2,358 sq. miles**

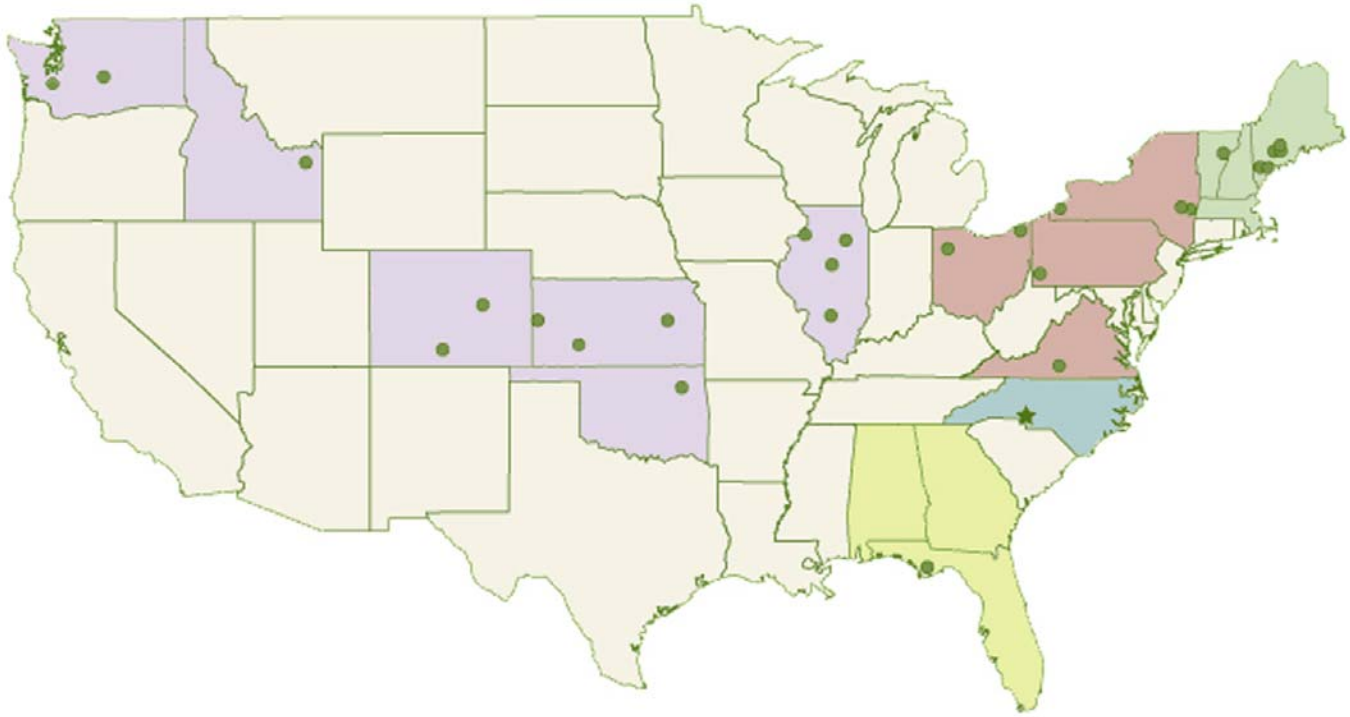
Source: U.S. Census Bureau Data from Rand McNally
* Access lines as of December 31, 2004

FairPoint Operations Overview

Operations overview

- **FairPoint highlights.**
- 17 states.
- 27 companies.
- 276,167 (3/31/05) access line equivalents.
- 18,518 square miles.
- 13 access lines per square mile.
- 155 exchanges.
- 24,349 miles of plant.
- 2,857 miles of fiber.
- 13%(+) DSL penetration.
- 750+ employees in rural service areas.

- **FairPoint commitment**
- rural economic development.
- latest technologies
- local presence.

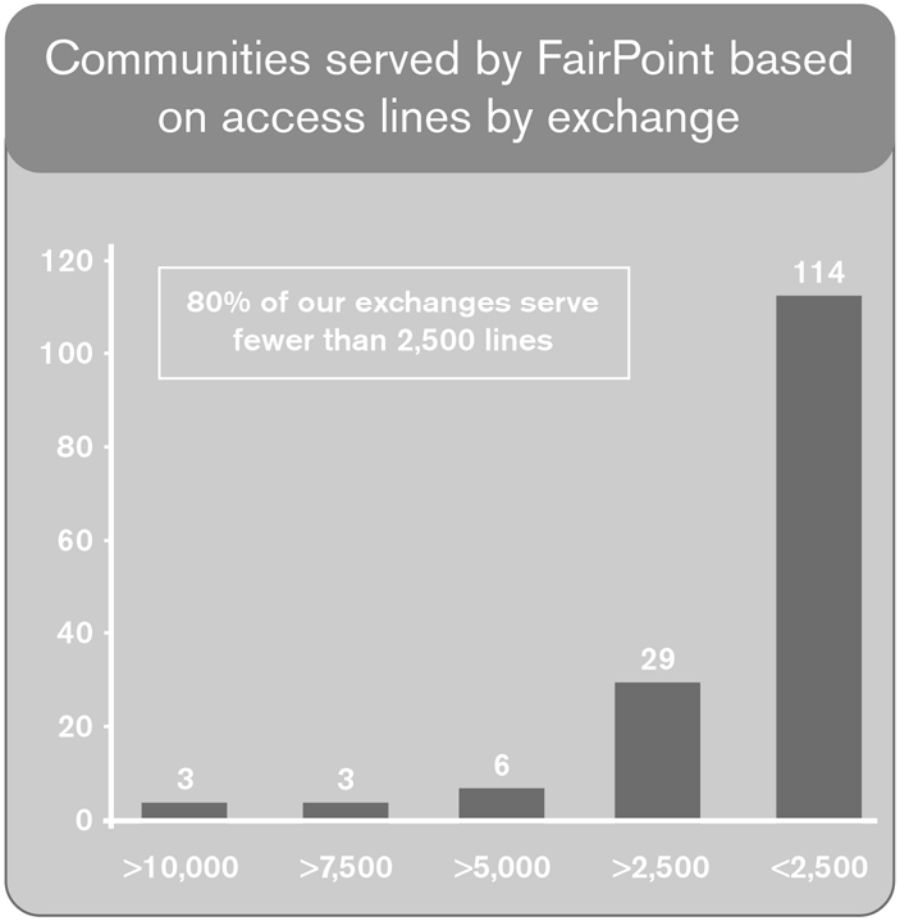


Operations overview

- **We serve highly rural markets**
- > Largest market is Ellensburg, WA with a population of approximately 15,000.
- > 13 access lines per square mile versus an average of 128 per square mile for non-rural carriers.

- **If we were not there, who would be?**
- > No other wireline competition.
- > No meaningful wireless in our markets.
- > Cable modem offered in only 36 percent of our markets.
- > 31% of our markets have no cable television service offering.
- > Limited broadband options for our customers.

- **79 percent residential customers**
- > Our business customers primarily have 1 or 2 lines.
- > Stable rural customer base.



COMPORIUM COMMUNICATIONS

Company Overview

COMPORIUM COMMUNICATIONS

COMPANY OVERVIEW

- Began providing service in 1894
- 105,910 access lines in service as of December 31, 2004
- Over $465 million in total network investment as of December 31, 2004
  - Nearly 20,000 fiber miles deployed throughout the Comporium network
  - Most fiber is arranged in “self-healing” ring configurations
  - Switching network has been entirely digital since 1987

COMPORIUM COMMUNICATIONS

COMPANY OVERVIEW

- Approximately 67% of customer base is residential
- Total service area size of 677 square miles
- Comporium serves as an economic development engine throughout its serving areas
  - Over 700 employees and contractors as of December 31, 2004
  - Through an infrastructure tax credit, Comporium has provided more than $1 million to area economic development groups over the last three years

COMPORIUM COMMUNICATIONS

COMPANY OVERVIEW

- Comporium and its affiliates provide a wide array of services throughout their serving territories and markets
  - Local Telephone
  - Long Distance
  - Internet
  - Wireless
  - Cable TV
  - Security Monitoring

COMPORIUM COMMUNICATIONS

COMPANY OVERVIEW

- In April 2004, Comporium finalized the purchase of PBT Telecom, the tenth largest ILEC in South Carolina
  - PBT provides service to nearly 18,000 access lines
  - PBT has a service territory of 650 square miles just southwest of Columbia, SC
  - PBT serves an average of 28 access lines per square mile throughout its study area

Additional Data

Implications

- Rural carriers key to fulfilling Congress's goals in Sec. 254.
- Comparability and affordability supported by three revenue streams.
  - Access revenues key element of support for rural carriers, along with universal service and customer rates.
  - Revenue loss from "phantom traffic" a significant concern.
  - Loss of either access or USF will place further upward pressure on retail rates, harm rural customers.
- High speed deployment increasing.
  - Rural providers aggressively deploying broadband– *an advanced services deployment goal success!*
    - Density, distance, demographics and terrain all significant barriers.
    - Networks are expensive.
      - COLR (as opposed to "build where I want to") expensive.
    - Services deployed over high quality "no barriers" networks may be cheap, but the underlying network is not.

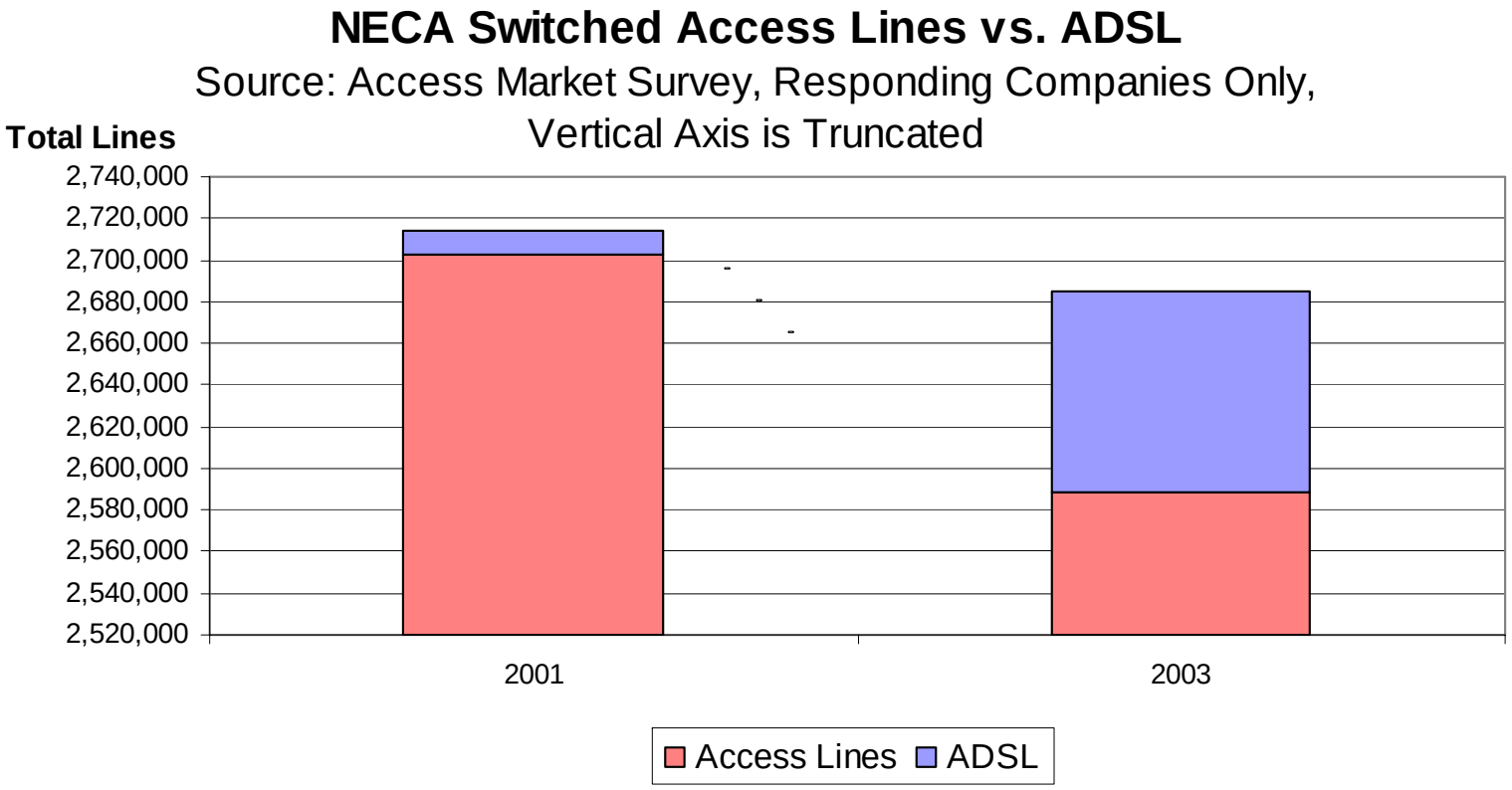
Higher Costs Mean Higher Rates

- Higher cost of serving rural America means rural and independent customers pay relatively more for local and long distance phone service:
  - Local: Average rural local rates are $28.08 – 24% higher than average non-rural local rates ($22.65).
  - USF and access keep rates and services comparable in tough-to-serve areas.
    - From 1983 – 2004 penetration rates have increased more in largely rural states than the national average. (2004 Telephone Subscribership Survey, p. 8.)
    - High speed Internet available in 73% of lowest density zip codes in Dec. 2003, up from 37% in June 2001 (4th Section 706 Report, p.30.)

Source: NECA, reports of carriers

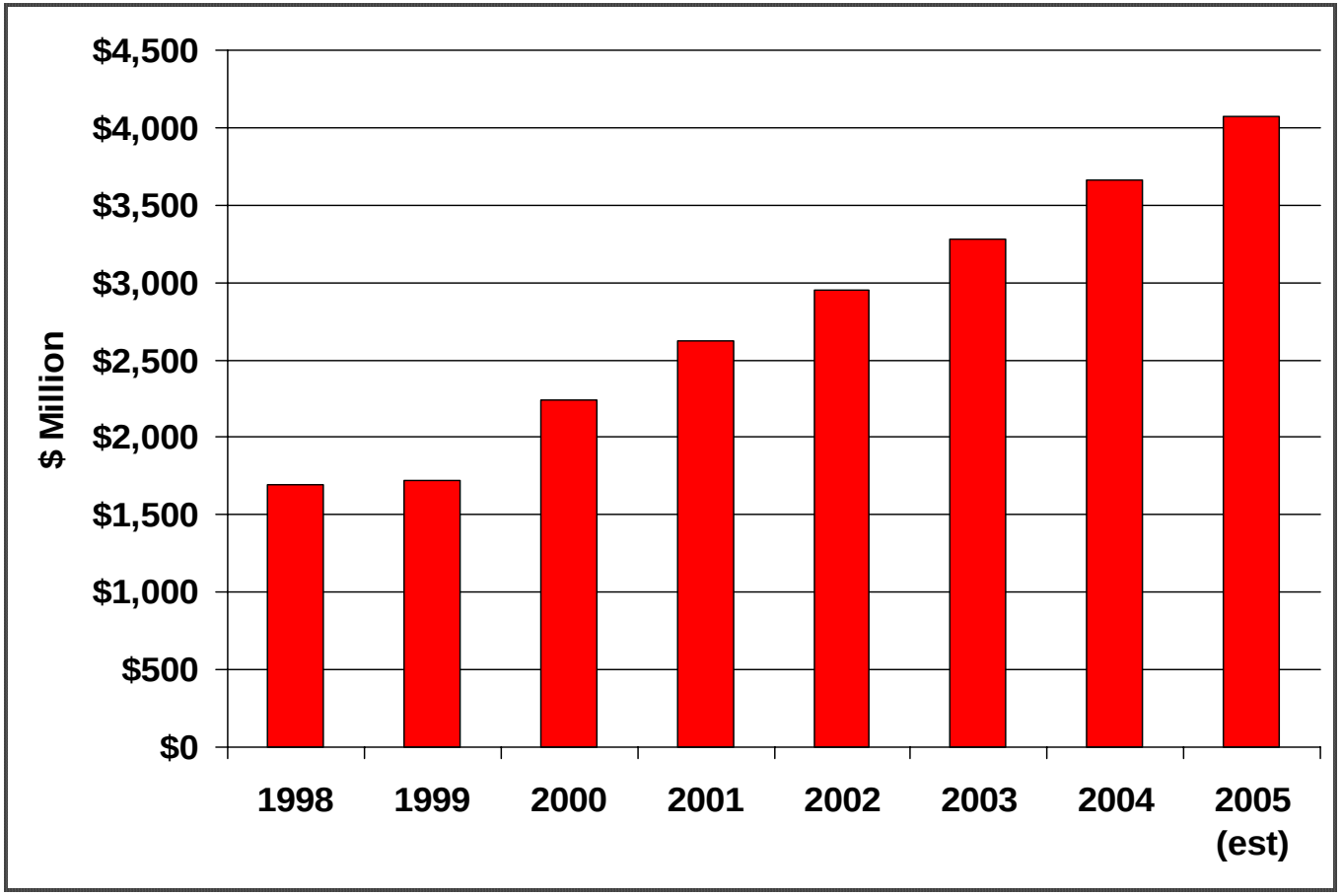
Rural company DSL deployment growth

NECA Pool companies



Source: NECA

Total High Cost Funding



The End.

Eligibility should continue to be determined at the study area level